

FDIC State Profile

Spring 2005

North Carolina

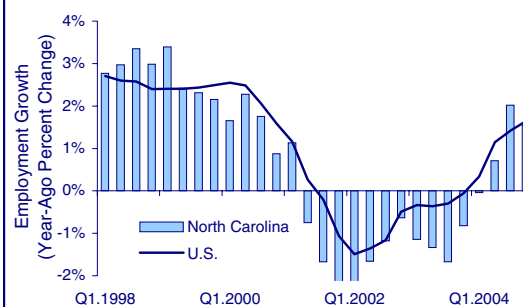
North Carolina experienced significant economic growth in late 2004.

- North Carolina payrolls saw continued economic growth into late 2004 as the state rebounded from the past recession (See Chart 1). Unemployment levels have likewise continued their post-recession gains.
- Despite the state's economic improvement, the long-term decline in the state's manufacturing industries has not yet abated. However, the impact on unemployment rates has been limited, as workers in manufacturing industries dropped out of the labor force following extended bouts of joblessness.
- Growth in high-wage service-providing industries has helped support the recovery despite continued long-term declines in manufacturing payrolls. North Carolina is successfully transitioning into a mature economic recovery. Service-providing industries, particularly leisure and health care, are now driving the state's long-term growth. Construction payrolls also increased from year-ago levels, following a post-recession slowdown. Statewide wage and salary growth has continued to exceed national wage growth.
- Jobless rates decreased in most counties in the state. All metropolitan areas in the state also have seen improving labor market conditions. **Rocky Mount** and **Hickory**, which previously had the highest unemployment rates among the state's metropolitan areas, have seen significant improvements from post-recession highs.

As North Carolina's economy recovers, some regions benefit more than others.

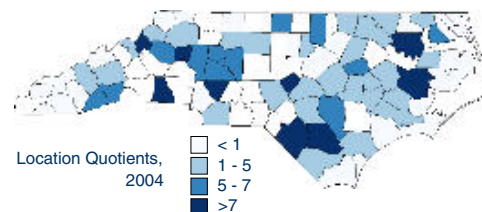
- The elimination of trade quotas on textiles and apparel products at the start of 2005 could exacerbate the ongoing trend in this sector's employment losses as even more production is shifted overseas, especially to China. Despite years of job erosion, textile and apparel employment in North Carolina remains a critical economic fixture in several areas (See Map 1). It is estimated that the state

Chart 1: North Carolina's Economic Expansion Continues



Source: Bureau of Labor Statistics

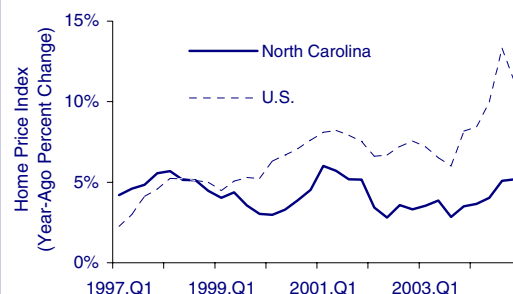
Map 1: Several Areas of North Carolina Have High Concentrations of Textile and Apparel Employment



Note: A location quotient is the share of industry employment locally to the national share. A location quotient greater than 1 means that the industry is relatively more concentrated locally than nationally.

Source: Global Insight, Inc.

Chart 2: North Carolina Home Price Appreciation Has Lagged the Nation



Source: Office of Federal Housing Enterprise Oversight

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could lose another 20,000 to 68,000¹ jobs over the next few years because of the elimination of the trade barriers.

- **Dell Computers** has begun construction of a 500,000 square foot manufacturing facility in **Winston-Salem** scheduled to open in fall 2005. While the employment positions are expected to have lower wages compared with other high-tech manufacturing, proliferation of second-tier suppliers and service-providing industries will likely catalyze growth in the area.
- Economic growth in the rural areas of North Carolina has lagged faster growing metropolitan areas and tourist areas. Residents of rural counties are driving farther distances for better-paying jobs in these areas, as most of the job creation in rural counties has been concentrated in lower-paying, service-providing industries.

Residential housing construction is fueling growth and lending.

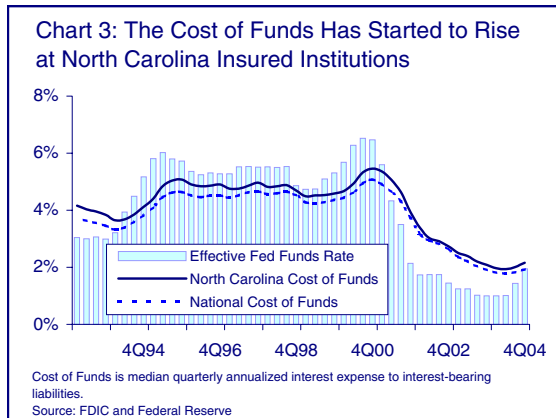
- Residential housing permits issued in the state have increased 5 percent from year-ago levels during 2004. The state's strongest residential real estate markets, in **Wake, Mecklenburg, and Guilford** counties, have each seen significant increases in home construction permits. Another area of recent growth is concentrated in the **Cape Fear** region of the state. Although statewide home appreciation is trailing national home price appreciation, the growth rate has accelerated (See Chart 2).
- Construction and development (C&D) loans at the state's community banks² continued to grow at a rapid pace. C&D loan growth during 2004 was 36 percent, up from 23 percent in 2003. **Raleigh** continues to be one of the fastest growing residential real estate markets. At Raleigh-based institutions, C&D lending as a percentage of Tier 1 capital was 156 percent at year-end 2004, which ranked among the top 20 markets nationally.

North Carolina community banks remain in good condition, but funding costs have started to rise.

- Earnings performance was solid at the state's community banks. Profitability measures were slightly below national averages; however, both net interest margins and return on assets showed improvement and rose modestly to 3.85 and 0.92 percent, respectively. Net income grew 10 percent to \$226 million during 2004, with lower overhead costs contributing to the rise.
- At community banks in the state, loan growth was funded primarily through increases in noncore sources, such as

brokered deposits and jumbo CDs. The growth rate of noncore deposits approximated 19 percent during 2004. This compares with just a 7 percent rate of growth in core funding sources.

- For much of the late 1990s, insured institutions in the state had funding costs that were lower than the federal funds rate especially during periods of rising rates. Should rates continue to rise, funding costs will likely lag again (See Chart 3).



¹Stella M. Hopkins, "Textile firm cutting 1,905 Carolinas jobs," Charlotte Observer, January 11, 2005.

²Community banks have assets less than \$1 billion and exclude specialty and de novo banks.

North Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	-0.8%	-0.6%	-2.2%	0.9%
Manufacturing (15%)	0.1%	-8.0%	-6.1%	-10.1%	-2.7%
Other (non-manufacturing) Goods-Producing (6%)	2.7%	-0.7%	-4.3%	-3.0%	1.0%
Private Service-Producing (62%)	2.1%	0.5%	1.2%	-1.0%	1.4%
Government (17%)	0.5%	1.3%	-0.3%	2.9%	3.2%
Unemployment Rate (% of labor force)	5.3	6.2	6.6	6.5	4.2

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	5.5%	1.3%	2.7%	6.7%
Single-Family Home Permits	6.2%	0.1%	18.0%	9.4%	-6.6%
Multifamily Building Permits	-1.9%	-31.2%	6.6%	22.8%	-19.3%
Existing Home Sales	25.4%	19.6%	5.9%	5.4%	4.7%
Home Price Index	5.2%	3.5%	3.3%	5.2%	4.5%
Bankruptcy Filings per 1000 people (quarterly level)	1.04	1.14	1.11	1.07	0.89

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	108	104	108	115	118
Total Assets (in millions)	1,302,251	1,101,834	1,006,849	962,554	988,018
New Institutions (# < 3 years)	10	7	14	16	22
Subchapter S Institutions	2	2	3	4	3

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.23	1.58	1.50	1.61	1.49
ALLL/Total Loans (median %)	1.27	1.28	1.34	1.30	1.31
ALLL/Noncurrent Loans (median multiple)	2.11	1.92	2.14	1.71	2.36
Net Loan Losses / Total Loans (median %)	0.10	0.10	0.10	0.10	0.06

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	10.27	9.46	9.59	9.68	10.52
Return on Assets (median %)	0.71	0.75	0.84	0.65	0.72
Pretax Return on Assets (median %)	1.06	1.10	1.26	0.95	0.99
Net Interest Margin (median %)	3.67	3.65	3.83	3.58	4.04
Yield on Earning Assets (median %)	5.41	5.66	6.47	7.57	8.36
Cost of Funding Earning Assets (median %)	1.73	1.96	2.56	4.02	4.37
Provisions to Avg. Assets (median %)	0.19	0.20	0.29	0.21	0.22
Noninterest Income to Avg. Assets (median %)	0.69	0.88	0.83	0.67	0.54
Overhead to Avg. Assets (median %)	2.86	2.96	2.87	3.02	3.10

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	76.0	73.0	72.1	70.7	70.9
Noncore Funding to Assets (median %)	26.1	24.0	23.2	22.6	21.1
Long-term Assets to Assets (median %, call filers)	12.4	13.7	14.1	14.6	12.3
Brokered Deposits (number of institutions)	52	39	31	23	23
Brokered Deposits to Assets (median % for those above)	5.6	3.9	4.7	3.7	2.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	84.7	97.8	104.8	102.0	76.3
Commercial Real Estate	315.5	304.4	244.6	218.9	155.5
<i>Construction & Development</i>	97.5	79.1	74.1	65.8	44.2
<i>Multifamily Residential Real Estate</i>	10.1	10.3	9.5	9.2	6.9
<i>Nonresidential Real Estate</i>	152.8	167.2	125.3	111.0	99.3
Residential Real Estate	256.3	273.0	274.3	262.4	279.7
Consumer	21.6	32.4	38.0	41.2	40.0
Agriculture	3.5	4.2	4.7	4.3	4.4

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	38	78,456	< \$250 mil.	63 (58.3%)
Virginia Beach-Norfolk-Newport News, VA-NC	32	14,965	\$250 mil. to \$1 bil.	35 (32.4%)
Raleigh-Cary, NC	24	11,730	\$1 bil. to \$10 bil.	5 (4.6%)
Winston-Salem, NC	17	10,901	> \$10 bil.	5 (4.6%)
Greensboro-High Point, NC	29	9,129		